State Notes

TOPICS OF LEGISLATIVE INTEREST

May/June 2007

Agriculture Equine Industry Development Fund Revenue Issues
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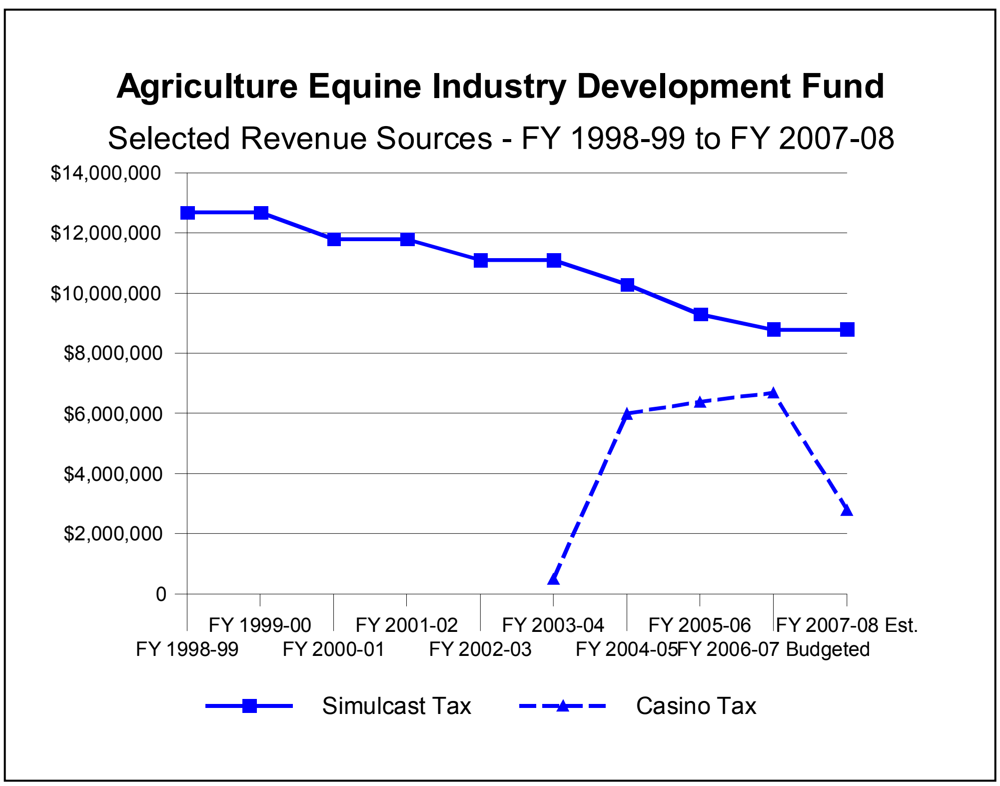
Background section primarily from a January, 2005, State Notes article by Craig Thiel

Background

The Horse Racing Law of 1995 created the Agriculture Equine Industry Development Fund (AEIDF) to provide funding for agriculture and equine industry development programs as provided in the statute. The Fund receives revenue from four principal sources: simulcast wagering taxes, horse racing licensing fees and fines, uncashed winning tickets, and, as of September 2004, a portion of the tax levied on Detroit casinos. By far, the two largest sources of revenue to the AEIDF are the simulcast wagering tax and the casino tax.

The primary source of revenue to the AEIDF is the simulcast wagering tax paid by each race meeting licensee, i.e., racetrack. The tax is levied at the rate of 3.5% on all money wagered on interstate and intrastate simulcast races. The simulcast wagering tax represents the only State tax levied on horse racing in Michigan. As shown in Figure 1, that tax revenue has declined each year since fiscal year (FY) 1999-2000. The reduction is attributable to the increase in competition for wagering dollars associated with the opening of the three Detroit casinos between July 1999 and November 2000 as well as the availability other gaming outlets in Michigan and Canada. The FY 2005-06 revenue to the AEIDF from this source was $9.3 million.

Figure 1



Public Act 306 of 2004 amended the Michigan Gaming Control and Revenue Act (MCL 432.212) to make several changes to the tax levied on the three Detroit casinos, effective September 1, 2004. Public Act 306 imposed a new 6.0% gross wagering tax on the casinos, bringing the total tax to 24.0%. Of the new tax revenue, 1/3 is allocated to the City of Detroit, 7/12 to the State General Fund, and 1/12 to the AEIDF. Under the Act, the three casinos will not be required to pay the State tax once the permanent casinos are fully operational or if and when video lottery is operational at Michigan horse racetracks. The FY 2005-06 revenue to the AEIDF from this source was $6.4 million.

FY 2007-08 Revenue Issue

As noted above, MCL 432.212 includes termination provisions for the State portion of the additional wagering tax on the Detroit casinos. When a permanent casino facility has been fully operational for a period of 30 days, the licensee may apply for certification by the Michigan Gaming Control Board. Once the casino is certified, the additional wagering tax will be reduced from 6.0% to 1.0%, which will be allocated entirely to the City of Detroit. This revised tax rate will be retroactive to the date the permanent casino became fully operational, i.e., the beginning of the 30-day waiting period.

Based upon a timetable that would have the MotorCity Casino operational by October 1, 2007, and the MGM Grand Detroit operational by January 1, 2008, the Consensus Revenue Estimating Conference, in May 2007, estimated a net reduction of $28.4 million in State revenue from the casino tax. The portion of this lost revenue that would have been allocated to the AEIDF is an estimated $4.3 million or 25.9% of the Fund's total appropriation for FY 2006-07. However, revised construction estimates have both casinos becoming fully operational by the start of the fiscal year on October 1. As a result, revenue may be even lower than anticipated.

Revenue to the AEIDF from simulcast wagering and the casino tax is designated for the broad purpose of agriculture and equine industry development pursuant to Section 20 of the Horse Racing Law. The Governor's FY 2007-08 recommended budget for the Department of Agriculture included expenditure reductions from the AEIDF to address the estimated revenue reduction. The specific budget cuts resulting from the decrease in revenue are outlined in Table 1. Total expenditures from the AEIDF for FY 2007-08 are recommended at $12.6 million, down from $16.6 million appropriated in FY 2006-07.

Revenue Issues in Future Years

Exacerbating the impact of the operational status of the MGM Grand Detroit and the MotorCity Casino is the distinct possibility that increased gaming activity at those two locations could decrease traffic at the horse racetracks in Michigan. It is possible that individuals will choose the expanded gaming opportunities at the new casino facilities over the racetracks. This shift would result in more drastic decreases in simulcast tax revenue during FY 2007-08, thereby continuing the downward trend already evident in Figure 1.

Finally, almost two-thirds of the FY 2007-08 revenue to the AEIDF is affected by the fact that two of the three Detroit casinos will become fully operational before the start of that fiscal year. The third casino, Greektown, will become fully operational in the fall of 2008, which will eliminate the remainder of revenue from the casino tax in FY 2008-09. Approximately $2.8 million in revenue will be lost.

Table 1

Agriculture Equine Industry Development Fund Selected Appropriations - FY 2006-07 to FY 2007-08		FY 2007-08 Governor's Recommendation	
Appropriation Unit/Line Item	**FY 2006-07 Year-to-Date Appropriation**	**Appropriation**	**Change**
Executive			
Statistical Reporting Service – Equine Industry Survey	$50,000	$0	$(50,000)
Animal Industry			
Animal Health and Welfare	$58,200	$58,200	$0
Bovine Tuberculosis Program	2,340,900	2,125,400	(215,500)
Subtotal	$2,399,100	$2,183,600	$(215,500)
Agriculture Development			
FFA Association	$80,000	$0	$(80,000)
4-H Association	20,000	0	(20,000)
Subtotal	$100,000	$0	$(100,000
Fairs and Expositions			
Building & Track Improvements	$963,200	$0	$(963,200)
Purses and Supplements	3,031,700	2,370,000	(661,700)
Standardbred Breeders' Awards	1,273,000	969,000	(304,000)
Standardbred Purses & Supp	2,305,700	1,789,300	(516,400)
Standardbred Training & Stabling	44,900	36,000	(8,900)
Thoroughbred Program	3,092,400	2,400,000	(692,400)
Thoroughbred Owners' Awards	159,900	124,000	(35,900)
Standardbred Sire Stakes	1,040,000	810,000	(230,000)
Thoroughbred Sire Stakes	1,063,100	830,000	(233,100)
Light Horse Racing	170,900	132,000	(38,900)
Distribution-Outstanding Winning Tickets	700,000	700,000	0
Subtotal	$13,844,800	$10,160,300	$(3,684,500)
Information Technology			
Information Technology Services	$221,100	$208,100	$(13,000)
Total	**$16,615,000**	**$12,552,000**	**$(4,063,000)**

Conclusion

Revenue to the Agriculture Equine Industry Development Fund from existing sources has been steadily declining over the past several years and will be drastically reduced in the next two fiscal years. This lack of resources will necessitate some sort of action in the form of additional cuts to the horse racing line items, a shift of AEIDF funding from Bovine TB eradication to horse racing programs, or the use of some new funding source.